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RUEHBJ/AMEMBASSY BEIJING PRIORITY 4916  
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RUEHLO/AMEMBASSY LONDON PRIORITY 0865  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 1738  
RUEHRH/AMEMBASSY RIYADH PRIORITY 0604  
RUEHKO/AMEMBASSY TOKYO PRIORITY 1793  
RUEHWL/AMEMBASSY WELLINGTON PRIORITY 2523  
RUEHDE/AMCONSUL DUBAI PRIORITY 0035  
RUEHHK/AMCONSUL HONG KONG PRIORITY 2578  
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RUEHUNV/USMISSION UNVIE VIENNA PRIORITY 0175  
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S E C R E T SECTION 01 OF 06 JAKARTA 000729

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SIPDIS

DEPT FOR EAP/MTS, S/CT, EAP/RSP, NEA, EEB/ESCITFS  
TREASURY FOR O'BRIEN, PHIPPS, POLITZER, DERGARABEDIAN  
KUALA LUMPUR FOR MATTHEWS  
SINGAPORE FOR BAKER  
DOJ FOR CTS THORNTON, AAG SWARTZ  
DOJ/OPDAT FOR LEHMANN/BERMAN/KALISHNIKOVA  
DOJ/AFMLS FOR SAMUEL  
NSC FOR E.PHU

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TAGS: [KTFN](#) [EFIN](#) [PTER](#) [PGOV](#) [ID](#)  
SUBJECT: A/S O'BRIEN EMPHASIZES IRAN, ASSET FREEZING IN  
INDONESIA

REF: A. A) JAKARTA 618 (O'BRIEN SCENESETTER)  
[1](#)B. B) JAKARTA 505 (SBY VISITS IRAN)

JAKARTA 00000729 001.2 OF 006

Classified By: Classified by Deputy Economic Counselor Ruth M. Hall, Re  
asons 1.4 b,c,d,e,g.

[1](#)1. (C) Summary: Treasury Assistant Secretary for Terrorism  
Financing and Financial Crimes O'Brien visited Indonesia  
April 2-3 to urge Indonesian government officials, regulatory  
agencies and private sector to be vigilant about Iran's  
outreach plans in the region and to more vigorously enforce  
asset freezing obligations under United Nations sanctions.  
A/S O'Brien also received a briefing from Sidney Jones,  
Senior Advisor at the Indonesia Crisis Group (ICG), on the  
various terrorist organizations active in Indonesia. A wide  
variety of contacts provided information on the status of  
counterterrorism (CT), sanctions implementation, anti-money  
laundering and counterterrorism financing (CFT) efforts.  
Indonesian officials admitted to weaknesses in implementing  
UN asset freezes, supervision of the charities and other  
areas covered in Indonesia's Mutual Evaluation Report (MER)  
by the Asia Pacific Group on Money Laundering (APG). End  
Summary.

Iran Seeks New Banking Relationships,  
Using Duplicitous Tactics

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12. (S) In meetings with banks, senior GOI officials and private sector businesses, A/S O'Brien emphasized that as UN sanctions squeeze Iran, Iran seeks new banking and account relationships as well as to purchase banks or open branches of Iranian banks. Iranian banks sometimes tried to disguise their identity on transfer documents or other messages between banks. The use of front companies, false names and duplicitous methods are raising concerns. The Financial Action Task Force (FATF) had found the anti-money laundering (AML) provisions of the entire country to be so inadequate that it called on all jurisdictions to warn all banks to undertake enhanced due diligence when working with Iranian banks and their foreign offices. To emphasize his points, O'Brien passed to the Central Bank, and the Financial Transaction Reports Analysis Center (PPATK) sensitive information about the deceptive practices employed by Bank Melli and separate information that Bank Tejerat planned to establish a joint bank in Indonesia. He also gave officials and bankers at Bank Muamalat and Bank Mandiri copies of the two statements issued by the FATF and the FinCEN advisory of March 20, 2008. O'Brien emphasized that there is no enforcement of rules governing transparency in Iranian banks. Businesspeople, regulators, and commercial banks should use extreme caution in any dealings with Iranian entities. The President Director of Bank Muamalat said that Indonesian banking transactions with Iran are very small. Bank Mandiri said it had no relationship with Iranian banks.

PPATK Notes Need for National Identifier  
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13. (SBU) In addition to raising points on Iran and passing information on Banks Melli and Tejarat and the FinCEN

JAKARTA 00000729 002.2 OF 006

advisory, the Chairman of the Financial Crimes Transaction and Analysis Center (PPATK) Yunus Husein, the Chairman, presented PPATK's achievements, challenges and its national strategy for 2007-2011. A/S O'Brien thanked Husein for his good work in the Asia Pacific Group and his other efforts on anti-money laundering (AML). Husein said that the establishment of a national Single Identity Number was important for progress for AML, criminal activities and CTF. The national identifier would also help the police and would be administered by the Ministry of Home Affairs. Husein hopes that the Parliament can begin discussions of a revised bill on AML in May and pass it by the end of 2008. The new bill will extend investigative powers to the police and recognize predicate crimes as a ground for freezing an account. Terrorist financing is already criminalized under Law 15/2003, he noted. Husein said that he recognized the deficiencies in the GOI system as discussed with FATF's MER team, especially the lack of a standard procedure for asset freezing under UN sanctions. It was easier for the GOI to take action on UN-designated individuals and entities rather than if they just came from the U.S., he admitted. Nevertheless, Husein is working with his counterpart agencies to remedy this. Husein said that he would appreciate the USG's help in the implementation of an effective asset forfeiture and recovery regime and plans a trip to the U.S. in late April. (Note: The FATF will discuss Indonesia's MER at the APG meeting in Bali the week of July 7.)

Central Bank: Migrant Worker Transfers  
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14. (C) In a meeting with Director for Banking Research and Regulation, Halim Alamsyah at Bank Indonesia, BI welcomed USG assistance to improve its AML-CFT regime. On the issue of Iranian banks seeking new licenses in Indonesia, Alamsyah responded that BI takes CFT very seriously and seeks to better educate bank supervisors about risks. BI is in the process of bank consolidation and "does not want to give any new licenses." He also noted that if Iran sought to purchase

a bank in Indonesia, it was unlikely to pass any "fit and proper" test. "It would be a long process," he concluded. A/S O'Brien urged BI to sensitize commercial banks about any approaches from Iran for a new relationship, as well as issue a formal notice about risks of Iranian banks as Treasury's FinCen had done.

15. (C) Alamsyah said that BI was working to reform internal transfers and cooperating closely with the PPATK on detection of illicit money flows. Remittances from overseas migrant workers was also a huge headache. "They don't trust the banks and are worried about fees, so most of it comes through non-bank financial transfers," he noted. Alamsyah estimates that about \$5 billion comes into Indonesia this way, about 30% from the Middle East, 30% from Asia (mostly Hong Kong, Japan and Taiwan) and the rest from Malaysia and elsewhere. BI has a special unit and outreach efforts to educate workers overseas.

#### Charities - A Huge Challenge for the GOI

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JAKARTA 00000729 003.2 OF 006

16. (SBU) A myriad of GOI officials with some responsibility for charities described the various methods and procedures for regulating Indonesian charities. Indonesia lacks a coherent system for registering, licensing or monitoring the large number of charities in the country. An official from the Ministry of Law and Human Rights noted that foundations and charities have to file with a notary but there is no formal requirement to refer them to the appropriate line Ministry (i.e. Education, Health, Religious Affairs) who would be responsible for "overseeing" their activities. A representative from BAZNAS, the organization in charge of Zakat (Islamic charitable donations) noted that its mission is to distribute donations to the neediest people. There are about 40,000 individuals who donate significant amounts as well as large institutions. BAZNAS distributes to community organizations that help the poor with small programs. "But the need is greater than the number of programs," she noted. On money coming in from overseas, a representative from the Ministry of Home Affairs said that Law 16/2001 regulates grants coming from other countries and that all charities and NGOs should report them. However, many do not do this. It is difficult for the GOI to control and there are also deep concerns about fraud and terrorist financing. The relevant Ministries are working with the PPATK to examine risks and prevent abuse.

#### UK and Australia Note Obstacles, Progress: A Million Charities

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17. (C) Chris Sturgeon at the UK Embassy and Justin Lee, Australian Political Counselor have responsibility for counter-terrorism and met with A/S O'Brien on April 3. Sturgeon noted that there are more than 17,000 registered charities in Indonesia but in reality probably closer to one million. There is no single regulatory body within the government in charge of charities. They are instead supervised by a "nightmare number of ministries." The UK Charities Commission (UKCC) has been doing work in Indonesia since 2005 and has some "buy in" from the Ministry of Law, Justice and Human Rights but less from the Ministry of Religious Affairs. The UKCC hopes to create a regulatory body along its model by 2011. A draft law to create and oversight body has not been approved by the executive branch of the GOI and there has been insufficient outreach to the Parliament (DPR) on the draft. Sturgeon noted that the UKCC had built up a good reputation for advisor work. The UKCC is also trying to map the network of non-governmental organizations active in Indonesia, a huge task, as well as looking at Zakat reform (donations collected at mosques). The UK is trying to play a proactive but behind-the-scenes role so as not to generate any backlash within Indonesia

among Islamic groups or others.

¶8. (C) Justin Lee noted that the Government of Australia (GOA) has provided significant support to the PPATK, which has paid off in increased capacity. PPATK and Australia's AUSTRAC have a good relationship. Lee sees the need to address a whole range of border issues both to tighten up money flows and cross-border movement of criminals and terrorists. Border security and immigration authorities need

JAKARTA 00000729 004.2 OF 006

better staffing and training. Lee agreed wholeheartedly with the idea to develop a cadre of financial investigators to focus on CTF. On the issue of a national identity card or other unique identifier, both Lee and Sturgeon noted that there would be "tremendous resistance" from regional and local issuers who generate significant revenues from these cards.

Middle East Envoy Alwi Shihab:  
Iran is Operating through Dubai  
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¶9. (C) In a meeting with Special Middle East Envoy Alwi Shihab, Shihab noted that "talking to Iran is like talking to a stubborn child." On the proposed fertilizer project with Iran, which was publicly announced during President Yudhoyono (SBY)'s visit to Iran in March, Shihab admitted it was "not moving" due to the financing aspects. Even the Islamic Development Bank (IDB) says it cannot finance it due to the Iran controversy. "We want to keep the idea alive to get the attractive and competitive price of \$1 for gas. And we need the fertilizer. We had hoped by the time the project started, there would have been a political change in Iran," Shihab stated. Shihab says he has tried to urge Iran to become more transparent and change the perception in the West. He noted that the Iranians are in bad shape and that a dramatic change in leadership is needed. Many in Iran do not support the current regime and are unhappy. "Even the taxi drivers are fed up," Shihab noted from his recent trip there.

A/S O'Brien repeated the points about Iranian banks and Shihab said that he was "aware of such tricks." Shihab noted that most Iranian entities are now operating through Dubai. Many Iranian businesspeople there are suffering and doing their best to change the course in Iran.

¶10. (C) On the issue of Saudi money coming to Indonesia to finance schools and charities, Shihab noted, "I'm concerned the Saudis cannot control 100% of the money sent out here. A lot of it is not going through their government channels." A/S O'Brien urged Shihab to reinforce the message to the Saudi government that its money should come through the Indonesian government's channels to distribute funds.

O'Brien Finds Resonance with Inter-Ministry Roundtable  
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¶11. (SBU) During a roundtable session with multiple GOI agencies involved in illicit money flows, A/S O'Brien presented USG procedures and international best practices under FATF Special Recommendation (SR) III in a well-organized powerpoint and follow-on discussion chaired by DEPLU Americas Director Harry Purwanto. O'Brien emphasized that there are many ways to address different aspects of terrorism financing, but one component of an effective program are targeted financial sanctions and the use of the 1267 framework at the UN. In addition to taking assets out of circulation, freezing has a deterrent effect on non-designated parties as well and can provide valuable information in locating assets. O'Brien emphasized that moving people into high-risk ways of moving money makes them more visible and thus more reluctant to proceed. O'Brien

JAKARTA 00000729 005.2 OF 006

also outlined the sanctions against Iran, both the broad set of economic sanctions as well as specific targeted entities.

¶12. (SBU) During the Question and Answer period, A/S O'Brien answered a range of questions about the legal challenges to U.S. domestic designations, the difficulties in acquiring identifiers for designated entities, and the problems associated with designations "tipping off an ongoing law enforcement operation against an individual or network. In response to questions about guidance on specific transactions, the O'Brien delegation provided the OFAC hotline number. GOI officials told the Embassy later how useful and informative the briefing was.

Private Sector Looking Elsewhere  
in the Middle East, Not Iran  
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¶13. (SBU) Influential business leaders at the Indonesian Chamber of Commerce (KADIN) described their business activities in the Middle East and provided an update on sharia banking. Attendees included Ilham Habibie, CEO of PT Ilthabi Rekatama and son of former President Habibie; Bachtiar Rahman, Chairman of PT Batasa Capital; Nuzirman Nurdin of Bakrieland Development (connected to Social Welfare Minister Aburizal Bakrie); Ismi Kushartanto, Head of Shariah banking for Bank Negara Indonesia; Hilmi Panigoro, CEO of Medco Energy and KADIN Chairman H. Sudrajat and International KADIN Committee Chair Shinta Widjaja. Sudrajat estimated the total business between Indonesia and the Middle East as only about \$3 billion excluding energy. "Opportunities are great but follow up is weak," he noted. Panigoro noted that Medco's relationship with Oman is good, and they have a small field operated by Medco there. Medco is also looking at investment in Yemen. Nurdin said that Bakrie was pursuing its first joint project with a Middle East company. Several around the table noted that investing in the Middle East requires patience, as negotiations are often slow or haphazard. During the discussion, A/S O'Brien repeated the points about the risks of doing business with Iran and Habibie inquired of A/S O'Brien whether any Iranian private banks were credible. O'Brien emphasized that the entire AML-CFT regime in Iran had been found deficient by the FATF, which should raise concerns for anyone dealing with Iranian banks.

¶14. (SBU) On sharia banking, Kushartono noted that the sector is still small, only about 2% of market share. Sharia financial products are still plagued by double taxation problems. In general, there are not enough international standards or regulations for Islamic financial products, he noted. There was interest in developing bundled regional and international sharia investments, but it would be hard to implement at this stage. (Note: Indonesia announced on April 9 that it would begin selling international and domestic Islamic bonds in the second half of 2008.)

Comments  
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¶15. (S) During the Embassy's Counter-Terrorism and Law

JAKARTA 00000729 006.2 OF 006

Enforcement Working Group discussion, there was consensus that two main areas of capacity building the USG could support the Indonesians are financial investigations more broadly and CFT specifically. A/S O'Brien concurred that it might be wise to support a cadre of 15-20 investigators to focus on CFT cases in particular and stress the importance of financial information to understand networks. The working group also suggested that the individuals receiving the training should be assigned to help support investigations.

¶16. (U) Treasury A/S O'Brien cleared on this message.

HUME